POLICY DISCUSSIONS

A decisive tightening of macroeconomic policies is required to restore stability, contain increasing risks to debt sustainability and achieve program objectives. The authorities plan to sharply curtail expenditures and raise tax revenues. Monetary policy will be contractionary to arrest upward inflation and depreciation trends, and to relieve pressure on FX reserves. Measures to improve PFM and governance are critical to durably improve budget outcomes, while the BSL should strengthen crisis management frameworks and the safety net.

A. Fiscal Policies

9. Fiscal policy is set to tighten decisively this year. The deficit is projected to contract from 10.9 percent of GDP in 2022 to 5.6 percent of GDP. This is expected to be achieved through a package of measures to raise tax revenues and curtail spending.

10. The authorities have implemented an ambitious package of measures to mobilize tax revenues. These are estimated to yield additional annual tax revenues of 2.2 percent of GDP by 2024 (Text Table 3): parliament approved a new 2023 Finance Act (**Prior Action #1**) with 1.8 percent of GDP in tax policy measures in April, while tax administration measures are expected to yield 0.4 percent of GDP.

11. Additional revenue measures are underway. The authorities are in the process of renegotiating a mining contract—which is expected to yield 0.2 percent of GDP in revenues—and are implementing a safe harbor regulation for iron ore to mitigate possible iron ore mispricing.[3] They are also committed to reinstating a fixed, predictable, and stable excise on fuel going forward, consistent with the historical average and the continuous SB.

12. The authorities are in the process of substantially curtailing spending while protecting social programs (Text Table 4). They plan to submit a 2023 supplementary budget after the elections that is aligned with program projections, including a 5.6

Text Table 3. Sierra Leone: Revenue Measures

(Percent of non-iron ore GDP)

Revenue measures	Yield
Tax policy measures (Finance Act 2023)	
(1) Introduced a minimum alternative tax at 3% of turnover	0.2
(2) Removed exemptions on GST (machinery and equipment, aviation operations, gambling, fees-based financial services, mobile data, digital services, voice calls, and first sale of property)	1.3
(3) Harmonized excise tax rates for local and imported excisable products and introduced annual vehicle circulation fees at Nle 200.	0.3
Tax administration measures	
(4) Introduced digital IDs, excise stamps and fuel marking technology; integrated company systems with electronic cash registers (ECR) for 19 large companies; strengthened compliance of key large taxpayers (extractives, financial, telecoms); and collected outstanding lease payments from two large hotels.	0.4
Mining related measures	
(5) Renegotiated one mining contract to unwinde concessions awarded in 2022	0.2
(6) Implemented a safe harbor regulations for iron ore	tbd
Total	**2.4**

Sources: Sierra Leonean authorities, and IMF staff calculations.

[3] While difficult to quantify ex-ante, the regulation has the potential of raising mining revenues.